

WISCONSIN EARNED INCOME TAX CREDIT: SUMMARY FOR 2005

A. INTRODUCTION

A total of 223,518 tax filers claimed Wisconsin earned income tax credits (EITC) amounting to \$78.8 million in tax year 2005, according to Department of Revenue (DOR) statistics from individual income tax returns. The average credit was \$353.

The Wisconsin EITC equals a percentage of the federal earned income tax credit, depending on the number of children in the household of the credit claimant: 4% for persons with one child, 14% for persons with two children and 43% for persons with three or more children.

The maximum federal credit in 2005 was 34% of earnings not exceeding \$7,830 for persons with one child and 40% of earnings not exceeding \$11,000 for persons with two or more children. These credits were phased out as the greater of earnings or federal adjusted gross income rose from \$14,370 to \$31,030 for single and head of household filers with one child and from \$14,040 to \$35,263 for single and head of household filers with two or more children. The maximum eligible earnings and phase-out ranges are adjusted annually for inflation. The floor and ceiling of the phase-out range for married couples filing jointly are \$2,000 higher than the floor and ceiling for other filers.

The federal government also provides the EITC to low-income persons without children; Wisconsin does not piggyback on this credit.

B. CREDIT HISTORY

Wisconsin's refundable earned income tax credit was enacted in 1989. Table 1 shows the number and amount of credits claimed in each of the years the credit has been in effect. Through 2004, data for each tax year are from returns filed through August 15 of the subsequent calendar year. For tax year 2005, the deadline to file an extended income tax return was extended, so returns filed through October 15, 2006 are included.

As the table shows, the percentage change in both the Wisconsin credit amount and the average credit have generally followed the changes at the federal level—which is expected since the Wisconsin credit is piggybacked on the federal credit. For example, the federal credit was substantially increased in 1991, with the amount of federal EITC paid to Wisconsin recipients rising 43.2%. Since the Wisconsin credit piggyback rates were not adjusted when this occurred, the amount of Wisconsin EITC recorded a similar increase, 46.6%.

Percentage changes in the federal credit in 1994 and 1995 are not available because Wisconsin decoupled its EITC from the federal credit in 1994—the Wisconsin credit was calculated separately and not as a percentage of the federal credit that year. As a result, the amount of the federal credit received was not reported on the Wisconsin tax return. One apparent effect of decoupling was a decrease in participation. The number of persons claiming the Wisconsin EITC was lower in 1994, when the credit was decoupled, than in

1993. Participation rebounded sharply in 1995, surging 11.5%, the largest growth other than in 1991, when eligibility for the federal credit was expanded.

The number of Wisconsin EITC recipients and the amount they claimed declined in the late 1990s, but both have increased since then. In 2005, the number of recipients and the amount of credits rose again by 3.1% and 7.3%, respectively.

TABLE 1
FEDERAL AND STATE EARNED INCOME TAX CREDITS IN WISCONSIN
TAX YEARS 1989 – 2005

Tax Year	Number Of Recipients	Federal Credit Amount* (\$ thou)	Average (\$)	Wisconsin Credit Amount (\$ thou)	Average (\$)
1989	126,511	\$68,409.8	\$541	\$16,464.1	\$130
1990	136,205	77,718.0	571	18,916.8	139
1991	153,194	111,255.2	726	27,725.0	181
1992	165,951	134,697.7	812	33,572.0	202
1993	172,425	153,726.5	892	38,652.1	224
1994	171,260	N/A	N/A	49,150.1	287
1995	191,019	287,033.7	1,503	54,750.6	287
1996	195,980	332,449.8	1,696	58,177.5	297
1997	194,023	344,338.8	1,775	60,760.8	313
1998	189,102	342,960.1	1,814	59,932.8	317
1999	185,442	339,062.5	1,828	59,057.7	318
2000	185,499	342,729.6	1,848	59,075.7	318
2001	189,586	355,624.2	1,876	60,346.8	318
2002	210,624	410,860.2	1,951	69,029.2	328
2003	214,164	423,617.1	1,978	69,765.9	326
2004	216,707	445,730.6	2,057	73,482.6	339
2005	223,518	\$478,468.8	\$2,141	\$78,831.0	\$353
Percent Changes					
1990	7.7%	13.6%	5.5%	14.9%	6.7%
1991	12.5	43.2	27.3	46.6	30.3
1992	8.3	21.1	11.8	21.1	11.8
1993	3.9	14.1	9.8	15.1	10.8
1994	-0.7	NA	NA	27.2	28.0
1995	11.5	NA	NA	11.4	-0.1
1996	2.6	15.8	12.9	6.3	3.6
1997	-1.0	3.6	4.6	4.4	5.4
1998	-2.5	-0.4	2.2	-1.4	1.2
1999	-1.9	-1.1	0.8	-1.5	0.3
2000	0.0	1.1	1.1	0.0	0.0
2001	2.2	3.8	1.5	2.2	-0.1
2002	11.1	15.5	4.0	14.4	3.1
2003	1.7	3.1	1.4	1.1	-0.6
2004	1.2	5.2	4.0	5.3	4.0
2005	3.1	7.3	4.1	7.3	4.0

* For taxpayers with Wisconsin EITC only. Data on federal credits for other taxpayers, in particular, persons without children, are not reported on Wisconsin tax returns and thus not available.

N/A Not available. Because the Wisconsin credit was calculated separately from the federal credit in 1994, the amount of federal credit was not recorded on the Wisconsin tax return.

C. CREDITS BY FILING STATUS

Table 2 reports the number of 2005 EITC recipients, the number of children they have, and the amount of credits they receive by filing status and number of children. As the table shows, most recipients are unmarried. About 63% are heads of household, that is, single persons with children who are considered dependents for tax purposes, and about 10% are single filers who do not claim their children as dependents on their tax returns, typically because the non-custodial parent is allowed the dependency claim.

Married couples, while only about 27% of the recipients, received 34% of the credit and their average credit of \$442 was substantially higher than the averages for heads of household (\$333) and single filers (\$240). Married couples had higher average credits and received a disproportionate share of the total credit amount because a larger percentage of them (30%) than of single (9%) or head of household (14%) recipients had three or more children, which qualified them for the largest credit.

TABLE 2
WISCONSIN EARNED INCOME TAX CREDITS
BY FILING STATUS AND NUMBER OF DEPENDENTS, 2005

Filing Status/ Number of Dependents	Number of Credits	% of Total	Number of Dependents	Total Amount (\$ thou)	% of Total	Average Amount (\$)
Single						
1 Dependent	15,262	6.8%	15,262	\$1,108,611	1.4%	\$73
2 Dependents	5,630	2.5	11,260	2,079,929	2.6	369
3 or More Dependents	2,079	0.9	6,417	2,332,514	3.0	1,122
Subtotal	22,971	10.3	32,939	5,521,054	7.0	240
Head of Household						
1 Dependent	73,199	32.7	73,199	4,948,965	6.3	68
2 Dependents	47,137	21.1	94,274	17,917,266	22.7	380
3 or More Dependents	20,100	9.0	62,366	23,904,631	30.3	1,189
Subtotal	140,436	62.8	229,839	46,770,862	59.3	333
Married Joint						
1 Dependent	18,284	8.2	18,284	1,112,095	1.4	61
2 Dependents	23,756	10.6	47,512	7,439,692	9.4	313
3 or More Dependents	18,071	8.1	60,955	17,987,295	22.8	995
Subtotal	60,111	26.9	126,751	26,539,082	33.7	442
All Filers						
1 Dependent	106,745	47.8	106,745	7,169,671	9.1	67
2 Dependents	76,523	34.2	153,046	27,436,887	34.8	359
3 or More Dependents	40,250	18.0	129,738	44,224,440	56.1	1,099
Total	223,518	100.0%	389,529	\$78,830,998	100.0%	\$353

Components may not sum to total due to rounding.

D. CREDITS BY NUMBER OF DEPENDENTS

Table 2 also shows that almost 48% of the filers claiming an earned income tax credit had one dependent, while 34% had two, and 18% had three or more. Because Wisconsin provides substantially larger credits to larger families, 56% of the credit went to recipients with three or more children, 35% to those with two children, and 9% to those with one child.

The effect of the Wisconsin adjustment for family size can also be seen by comparing the average credit, which was \$1,099 for those with three or more dependents, \$359 for those with two dependents, and \$67 for those with one dependent.

E. CREDITS BY COUNTY

Table 3 shows the number and amount of credits and the average credit for Wisconsin's 72 counties in 2005. Milwaukee County, the state's most populous county, had 59,532 credits totaling \$24.5 million, an average of \$411. That county accounted for 27% of all state EITC recipients and 31% of all credits paid. The second largest county, Dane, had 11,940 recipients claiming approximately \$3.7 million, for an average credit of \$311.

The county with the highest average credit was Menominee; its \$467 average was 32% higher than the state average of \$353 and \$56 higher than the \$411 average credit in Milwaukee County, which had the second highest average.

TABLE 3
EARNED INCOME TAX CREDITS BY COUNTY, 2005

County	Number of Credits	Amount of Credit (\$)	Average Credit (\$)	County	Number of Credits	Amount of Credit (\$)	Average Credit (\$)
Adams	890	\$327,036	\$367	Marinette	1,962	\$679,166	\$346
Ashland	1,038	366,919	353	Marquette	702	244,511	348
Barron	2,451	793,514	324	Menominee	522	243,717	467
Bayfield	748	265,535	355	Milwaukee	59,532	24,485,558	411
Brown	9,406	3,141,393	334	Monroe	2,052	736,187	359
Buffalo	606	193,694	320	Oconto	1,544	509,150	330
Burnett	795	292,764	368	Oneida	1,482	462,341	312
Calumet	1,060	327,628	309	Outagamie	5,575	1,819,645	326
Chippewa	2,663	937,647	352	Ozaukee	1,387	400,241	289
Clark	1,509	591,280	392	Pepin	317	114,226	360
Columbia	1,871	568,797	304	Pierce	1,077	312,459	290
Crawford	901	320,104	355	Polk	1,854	586,490	316
Dane	11,940	3,708,829	311	Portage	2,244	720,970	321
Dodge	2,857	915,668	320	Price	690	234,397	340
Door	987	291,097	295	Racine	8,887	3,323,804	374
Douglas	2,173	678,723	312	Richland	794	272,883	344
Dunn	1,553	572,287	369	Rock	7,553	2,535,921	336
Eau Claire	3,597	1,204,356	335	Rusk	865	348,840	403
Florence	167	53,191	319	St. Croix	1,976	592,394	300
Fond du Lac	3,330	1,039,641	312	Sauk	2,499	806,238	323
Forest	537	205,882	383	Sawyer	1,060	415,788	392
Grant	2,039	688,382	338	Shawano	1,818	661,455	364
Green	1,420	449,701	317	Sheboygan	3,753	1,192,963	318
Green Lake	747	255,511	342	Taylor	868	305,201	352
Iowa	960	310,026	323	Trempealeau	1,346	422,418	314
Iron	324	110,094	340	Vernon	1,293	458,854	355
Jackson	1,028	337,758	329	Vilas	1,000	327,383	327
Jefferson	2,654	767,013	289	Walworth	3,398	1,147,021	338
Juneau	1,393	483,074	347	Washburn	868	331,324	382
Kenosha	6,665	2,350,541	353	Washington	2,776	779,577	281
Kewaunee	718	227,787	317	Waukesha	6,220	1,773,493	285
La Crosse	3,884	1,283,908	331	Waupaca	2,081	673,722	324
Lafayette	782	283,302	362	Waushara	1,042	387,638	372
Langlade	1,080	375,647	348	Winnebago	5,483	1,721,621	314
Lincoln	1,224	363,404	297	Wood	3,155	1,090,090	346
Manitowoc	2,802	935,415	334	Other*	284	70,049	247
Marathon	4,752	1,624,720	342	Total	223,518	\$78,831,003	\$353

* Includes returns for which no county was listed.
Components may not sum to total due to rounding.

F. PARTICIPATION BY COUNTY

Two measures of the extent of participation in the EITC are the percentage of tax returns from the county that claim the credit and the percentage of the county's population in tax filing units receiving the EITC. For the latter measure, the number of people in a tax filing unit was based on the filing status (married couples filing jointly counted as two persons; heads of household and single filers as one) and on the number of dependents claimed for purposes of the EITC.

Table 4 shows both of these measures and again Menominee County stands out with far higher participation than any other county. While the EITC was claimed on approximately 8% of all tax returns statewide, 42% of Menominee County returns included a claim for the credit. Similarly, 11% of the state's population, but 33% of Menominee County's population, was in tax filing units receiving the EITC. For all other counties, the percent of returns with the EITC ranged from 3.3% (Ozaukee County) to 13.8% (Milwaukee County) and the share of population in tax filing units receiving the EITC ranged from 4.2% to 17.8%.

TABLE 4
EARNED INCOME TAX CREDIT PARTICIPATION BY COUNTY, 2005

County	Tax Returns	EITC Returns	Percent of Returns with EITC (%)	2005 Population	EITC Population	Percent of Population with EITC (%)
Adams	8,521	890	10.44%	21,224	2,428	11.4%
Ashland	7,649	1,038	13.57	16,905	2,850	16.9
Barron	22,398	2,451	10.94	46,805	6,640	14.2
Bayfield	7,257	748	10.31	15,666	2,035	13.0
Brown	116,027	9,406	8.11	240,404	25,511	10.6
Buffalo	6,860	606	8.83	14,076	1,683	12.0
Burnett	7,251	795	10.96	16,542	2,202	13.3
Calumet	20,785	1,060	5.10	45,168	2,890	6.4
Chippewa	27,647	2,663	9.63	60,367	7,312	12.1
Clark	14,797	1,509	10.20	34,453	4,361	12.7
Columbia	27,475	1,871	6.81	54,940	5,035	9.2
Crawford	7,862	901	11.46	17,493	2,488	14.2
Dane	227,651	11,940	5.24	458,297	31,679	6.9
Dodge	41,276	2,857	6.92	88,748	7,754	8.7
Door	14,603	987	6.76	29,299	2,611	8.9
Douglas	20,105	2,173	10.81	43,870	5,777	13.2
Dunn	17,958	1,553	8.65	42,208	4,347	10.3
Eau Claire	44,951	3,597	8.00	97,142	9,639	9.9
Florence	2,196	167	7.60	5,213	448	8.6
Fond du Lac	48,099	3,330	6.92	100,180	9,017	9.0
Forest	4,288	537	12.52	10,213	1,483	14.5
Grant	22,216	2,039	9.18	50,664	5,656	11.2
Green	17,581	1,420	8.08	35,578	3,844	10.8
Green Lake	9,487	747	7.87	19,375	2,020	10.4
Iowa	11,431	960	8.40	23,789	2,588	10.9
Iron	3,127	324	10.36	6,922	871	12.6
Jackson	9,083	1,028	11.32	19,828	2,817	14.2
Jefferson	37,925	2,654	7.00	79,188	7,008	8.8
Juneau	12,214	1,393	11.40	26,656	3,820	14.3
Kenosha	71,853	6,665	9.28	158,219	18,106	11.4

TABLE 4 (continued)
EARNED INCOME TAX CREDIT PARTICIPATION BY COUNTY, 2005

County	Tax Returns	EITC Returns	Percent of Returns With EITC (%)	2005 Population	EITC Population	Percent of Population with EITC (%)
Kewaunee	10,200	718	7.04%	21,082	1,949	9.2%
La Crosse	51,031	3,884	7.61	110,128	10,660	9.7
Lafayette	7,840	782	9.97	16,312	2,234	13.7
Langlade	9,899	1,080	10.91	21,389	2,909	13.6
Lincoln	14,446	1,224	8.47	30,402	3,254	10.7
Manitowoc	40,619	2,802	6.90	84,480	7,678	9.1
Marathon	63,651	4,752	7.47	131,377	13,408	10.2
Marinette	20,380	1,962	9.63	44,471	5,355	12.0
Marquette	7,655	702	9.17	15,138	1,935	12.8
Menominee	1,233	522	42.34	4,616	1,504	32.6
Milwaukee	431,257	59,532	13.80	938,995	167,584	17.8
Monroe	19,773	2,052	10.38	43,069	5,703	13.2
Oconto	18,014	1,544	8.57	38,243	4,191	11.0
Oneida	18,804	1,482	7.88	38,073	3,913	10.3
Outagamie	85,056	5,575	6.55	170,680	15,175	8.9
Ozaukee	41,946	1,387	3.31	85,787	3,642	4.2
Pepin	3,612	317	8.78	7,596	886	11.7
Pierce	17,461	1,077	6.17	39,329	2,856	7.3
Polk	20,553	1,854	9.02	44,613	4,997	11.2
Portage	30,993	2,244	7.24	69,365	6,093	8.8
Price	7,455	690	9.26	15,993	1,892	11.8
Racine	92,037	8,887	9.66	193,239	24,369	12.6
Richland	8,142	794	9.75	18,061	2,215	12.3
Rock	74,321	7,553	10.16	156,994	20,396	13.0
Rusk	6,862	865	12.61	15,469	2,453	15.9
St. Croix	36,507	1,976	5.41	75,686	5,290	7.0
Sauk	30,459	2,499	8.20	59,266	6,706	11.3
Sawyer	7,964	1,060	13.31	17,146	2,956	17.2
Shawano	19,122	1,818	9.51	42,029	5,045	12.0
Sheboygan	56,367	3,753	6.66	116,075	10,376	8.9
Taylor	9,262	868	9.37	19,902	2,507	12.6
Trempealeau	13,896	1,346	9.69	27,975	3,674	13.1
Vernon	12,922	1,293	10.01	29,189	3,611	12.4
Vilas	11,108	1,000	9.00	22,215	2,703	12.2
Walworth	45,337	3,398	7.49	98,496	9,213	9.4
Washburn	8,364	868	10.38	17,000	2,431	14.3
Washington	62,050	2,776	4.47	125,940	7,338	5.8
Waukesha	186,814	6,220	3.33	377,348	16,384	4.3
Waupaca	25,229	2,081	8.25	53,351	5,653	10.6
Waushara	11,064	1,042	9.42	24,918	2,906	11.7
Winnebago	76,762	5,483	7.14	163,244	14,667	9.0
Wood	37,274	3,155	8.46	76,644	8,683	11.3
Total*	2,767,910	223,518	8.08%	5,580,757	612,314	11.0%

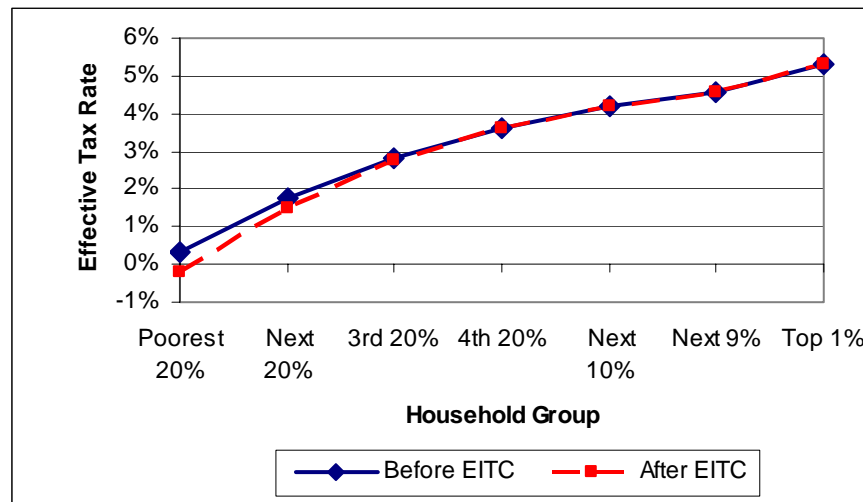
* Includes returns for which no county was listed.

G. EITC AND TAX INCIDENCE

In 2004, the Department of Revenue published a study on the incidence of 2001 taxes on Wisconsin households. The report indicated that the EITC enhances the progressivity of the individual income tax. The study measured the share of total income (from taxable and nontaxable sources) paid in 2001 taxes for households of different income levels. Chart 1 shows the share of household income paid in income taxes before and after the EITC. The solid line shows the share of income paid in income taxes before the EITC. Before the EITC, the poorest 20% of households, i.e., households with income less than \$15,600 paid 0.32% for their income in income taxes in 2001, while the top 20% of households, i.e., households with income greater than \$69,500 paid between 4.2% and 5.3% of their income in income taxes.

The dashed line shows the tax incidence after the EITC is taken into account. As the chart shows, the progressivity of the tax structure was enhanced by the credit: the poorest 20% of households received an average refund due to the EITC of approximately 0.23% of their total income, while the effective income tax rate for the next 20%, i.e., households with income between \$15,601 and \$27,900, decreased from 1.76% to 1.45% of their income. The EITC phased-out at income levels found in the third household quintile. These households had income between \$27,901 and \$44,100. The effective income tax rate declined slightly for these households from 2.82% to 2.78%.

CHART 1
INCIDENCE OF INDIVIDUAL INCOME TAX
BEFORE AND AFTER REFUNDABLE
EARNED INCOME TAX CREDITS (EITC), 2001



Source: Wisconsin Tax Incidence Study, Wisconsin Department of Revenue, December 16, 2004